

## Internal Revenue Service

Department of the Treasury  
Washington, DC 20224

Number: **201006002**

Release Date: 2/12/2010

Third Party Communication: None  
Date of Communication: Not Applicable  
Person To Contact:

Index Number: 357.00-00, 351.00-00, 803.00-00

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:5

PLR-117418-09

Date:

November 06, 2009

### LEGEND:

Taxpayer =

CountryX =

FS1 =

FS2 =

USParent1 =

Sub1 =

Lifeco1 =

Lifeco2 =

USParent2 =

Sub2 =

YearA =

Lifeco3 =

Lifeco4 =

Lifeco5 =

Lifeco6 =

YearB =

YearC =

FS3 =

StateA =

StateB =

DateA =

NewTPGroup =

XSAssets =

XPolicies =

ARTransaction1 =

XLiabilities =

XAssets =

NAssets =

NLiabilities =

NRTransaction =

CITransaction1 =

ZAssets =

WAssets =

YBusiness =

ARTransaction2 =

YLiabilities =

YAssets =

N2Assets =

N2Liabilities =

NR2Transaction =

CITransaction2 =

RTransaction =

UAssets =

VAssets =

UTransaction =

XReceivable =

YReceivable =

Dear :

This letter responds to your March 26, 2009 request for rulings as to the federal income tax consequences of proposed transactions. The information submitted in that request and in later correspondence is summarized below.

### SUMMARY OF FACTS

Taxpayer is a CountryX corporation that is the parent of a worldwide group of insurance and financial service companies. The FS1 is a CountryX corporation that is wholly owned by Taxpayer. Although FS1 formerly operated in the United States through a branch, it terminated that branch and no longer conducts any business in the United States other than through subsidiaries. FS2, a CountryX corporation, is wholly owned by FS1 and its affiliates.

USParent1 is a domestic limited liability company that operates as a holding company and has elected under §301.7701-3(a) to be treated as a corporation for federal income tax purposes. USParent1 is wholly owned by FS2. USParent1 and its subsidiaries file a consolidated return (the "USParent1 Group") that includes both life insurance companies (life companies) and corporations other than life insurance companies (nonlife companies) under section 1504(c) and §1.1502-47. The Sub1, a domestic holding company, is wholly owned by USParent1 and is a member of the USParent1 Group.

Lifeco1 is a domestic life insurance company that is wholly owned by Sub1. Lifeco2 is a domestic life insurance company that is wholly owned by Lifeco1. Both Lifeco1 and Lifeco2 are members of the USParent1 Group.

USParent2 is a domestic limited liability company that operates as a holding company and has elected under §301.7701-3(a) to be treated as a corporation for federal income tax purposes. USParent2 is wholly owned by Taxpayer and its affiliates. USParent2 and its subsidiaries file a consolidated return (the "USParent2 Group") that includes both life companies and nonlife companies under section 1504(c) and §1.1502-47. Sub2, a domestic holding company, is wholly owned by USParent2 and is a member of the USParent2 Group. Taxpayer acquired all of the stock of Sub2 in YearA and later that same year contributed the stock of Sub2 to USParent2.

Lifeco3 is a domestic life insurance company that is wholly owned by Sub2. Lifeco4 is a domestic life insurance company that is wholly owned by Lifeco3. Lifeco5 is a domestic life insurance company that is wholly owned by Lifeco4. Lifeco3, Lifeco4, and Lifeco5 are members of the USParent2 Group.

Lifeco6 is an affiliate of Lifeco3 and an indirect, wholly owned subsidiary of Taxpayer.

During YearB and YearC, Lifeco3 sold or distributed all the stock of FS3, a CountryX corporation, to Sub2. As a result of these transactions, gains recognized by Lifeco3 were deferred pursuant to §1.1502-13. The “intercompany items” and the “corresponding items” arising from those transactions would be taken into account (absent an applicable exception) pursuant to §1.1502-13(d) upon Sub2 or Lifeco3 ceasing to be a member of the USParent2 Group, or the stock of FS3 leaving the USParent2 Group.

Taxpayer now has two separate chains of United States subsidiaries, resulting in inefficiencies and added expenses. To resolve these problems, Taxpayer proposes to combine the USParent1 Group and the USParent2 Group into one consolidated group.

In PLR 200644021, dated July 28, 2006, this office issued a private letter ruling regarding a proposed series of transactions in which (i) USParent1 would merge with and into USParent2 and (ii) subsidiaries of those two parent companies would be combined. For various reasons those proposed transactions were not consummated.

The parties revised the earlier proposed series of transactions, and, in PLR-118747-08, dated October 17, 2008, this office issued a private letter ruling regarding the revised proposed series of transactions (the “Proposed Restructuring”). The Proposed Restructuring includes simultaneous statutory mergers of Lifeco3 and Lifeco4 with and into Lifeco1, with Lifeco1 surviving (the “Life Company Mergers”).

The closing of the Proposed Restructuring was postponed due to negotiations with the StateA and StateB insurance regulatory authorities and other business reasons. Taxpayer anticipates that the Proposed Restructuring will occur on DateA. In order to obtain regulatory approval for the Proposed Restructuring and achieve other business objectives, Lifeco3 and Lifeco1 propose to complete the additional transactions that are described below.

After the Proposed Restructuring and the additional transactions that Lifeco3 and Lifeco1 propose to complete (which are described below), USParent2 will continue as the common parent of an affiliated group of corporations that (i) includes, among other entities, Sub1, Lifeco1, and Lifeco2 (collectively, the “NewTPGroup”) and (ii) files a “life/nonlife” consolidated federal income tax return pursuant to section 1504(c)(2) and the regulations promulgated thereunder. However, Lifeco5 will not be an “eligible corporation” within the meaning of §1.1502-47(d)(12)(i) with respect to the NewTPGroup. Consequently, Lifeco5 will not be a member of the NewTPGroup immediately after the Proposed Restructuring.

## **1. Lifeco3’s Proposed Transactions**

Lifeco3 will transfer to Lifeco5 certain of Lifeco3’s StateB insurance business, together with (i) certain related assets, (ii) additional surplus assets (the “XSAssets”),

and (iii) related reinsurance contracts, in exchange for stock of Lifeco5 and Lifeco5's assumptions of statutory reserve liabilities and other liabilities of Lifeco3 (the "Lifeco3-Lifeco5 Transaction").

In the Lifeco3-Lifeco5 Transaction, (i) Lifeco3 will transfer to Lifeco5 X Policies pursuant to an assumption reinsurance transaction (the "ARTransaction1") in which Lifeco5 will assume the statutory reserve liabilities of Lifeco3 under the X Policies and certain related liabilities (the "X Liabilities") and Lifeco3 will transfer to Lifeco5 certain related assets (the "X Assets"), and (ii) Lifeco3 will transfer to Lifeco5 Lifeco3's rights (including any funds withheld account assets) (the "N Assets") and liabilities (including any funds withheld account payables) (the "N Liabilities") under or in respect of certain reinsurance agreements in a novation transaction (the "NRTransaction").

Also, in the context of an indemnity coinsurance transaction (the "CITransaction1"), Lifeco3 will transfer assets to Lifeco5 in excess of the premium that Lifeco3 would have paid in an arm's-length transaction (net of any ceding commission that Lifeco3 would have received in such transaction) (the "Z Assets") and Lifeco5 will assume from Lifeco3 miscellaneous liabilities which are not part of that transaction (the "Miscellaneous Liabilities").

Hereinafter, (i) the X Assets, the N Assets, the Z Assets, and the X S Assets shall be referred to collectively as the "First Exchange Assets," and (ii) the X Liabilities, the N Liabilities and the Miscellaneous Liabilities shall be referred to collectively as the "First Exchange Liabilities." The First Exchange Assets may include market discount bonds the disposition of which would be subject to the rules of section 1276.

Lifeco3's transfer to Lifeco5 of the First Exchange Assets in exchange for stock of Lifeco5 and Lifeco5's assumptions of the First Exchange Liabilities shall hereinafter be referred to as the "First Exchange."

Lifeco3's proposed transactions will occur prior to the Life Company Mergers.

## **2. Lifeco1's Proposed Transactions**

Lifeco1 will transfer to Lifeco2 certain StateB insurance business that Lifeco3 has written and that will be transferred to Lifeco1 in the Life Company Mergers, together with (i) certain related assets, (ii) additional surplus assets (the "W Assets"), and (iii) related reinsurance contracts, in exchange for actual and constructive stock of Lifeco2, a receivable from Lifeco2 (the "Y Receivable," which is described below), and Lifeco2's assumptions of statutory reserve liabilities and other liabilities of Lifeco1 (the "Lifeco1-Lifeco2 Transaction").

As part of the Lifeco1-Lifeco2 Transaction, (i) Lifeco1 will transfer to Lifeco2 the StateB fixed product business and certain other StateB insurance business that was written by Lifeco3 (the "Y Business") pursuant to an assumption reinsurance transaction (the "ARTransaction2") in which Lifeco2 will assume the statutory reserve liabilities of Lifeco1 under the Y Business and certain related liabilities (the "Y Liabilities") and Lifeco1

will transfer to Lifeco2 certain related assets (the “YAssets”), and (ii) Lifeco1 will transfer to Lifeco2 Lifeco1’s rights (including any funds withheld account assets) (the “N2Assets”) and liabilities (including any funds withheld account payables) (the “N2Liabilities”) under or in respect of certain reinsurance agreements in a novation transaction (the “NR2Transaction”).

Also, in the context of several indemnity coinsurance and “co/modco” reinsurance transactions (the “CITransaction2” and the “RTransaction”), Lifeco1 will transfer assets to Lifeco2 in excess of the premiums that Lifeco1 would have paid in arm’s-length transactions (net of any ceding commissions that Lifeco1 would have received in such transactions) (the “UAssets” and the “VAssets”), and Lifeco2 will assume from Lifeco1 miscellaneous liabilities that are not part of those transactions (the “Miscellaneous 2 Liabilities”). Furthermore, pursuant to a 100 percent indemnity coinsurance retrocession transaction (the “UTransaction”), Lifeco1 will obtain an account receivable from Lifeco2 (the “XReceivable”) in an amount that exceeds the premium that Lifeco2 would have paid in an arm’s-length transaction (net of any ceding commission that Lifeco2 would have received in such transaction) (the excess portion being referred to herein as the “YReceivable”).

Hereinafter, (i) the YAssets, the N2Assets, the UAssets, the VAssets, and the WAssets shall be referred to collectively as the “Second Exchange Assets,” and (ii) the YLiabilities, the N2Liabilities, and the Miscellaneous 2 Liabilities shall be referred to collectively as the “Second Exchange Liabilities.” The Second Exchange Assets may include market discount bonds the disposition of which would be subject to the rules of section 1276.

Lifeco1’s transfer to Lifeco2 of the Second Exchange Assets in exchange for actual and constructive stock of Lifeco2, the YReceivable and Lifeco2’s assumption of the Second Exchange Liabilities shall hereinafter be referred to as the “Second Exchange.”

Lifeco1’s proposed transactions will occur both before and after the Life Company Mergers.

In each of the Lifeco3-Lifeco5 Transaction and the Lifeco1-Lifeco2 Transaction, in order to comply with regulatory requirements or satisfy other business objectives, a portion of the assets relating to any particular surplus transfer agreement or reinsurance agreement may be transferred under the terms of another agreement. All asset transfers pursuant to a reinsurance agreement will be subject to a “true-up” based on the actual amount of the statutory reserve liabilities and the other liabilities transferred to the reinsurer.

## REPRESENTATIONS

Taxpayer makes the following representations with respect to the First Exchange:

- A. No stock or securities will be issued by Lifeco5 for services rendered to or for the benefit of Lifeco5 in connection with the First Exchange, and no stock or securities will be issued by Lifeco5 for indebtedness of Lifeco5 that is not evidenced by a security or for interest on indebtedness of Lifeco5 that accrued on or after the beginning of the holding period of Lifeco3 with respect to the debt.
- B. If any stock is transferred in the First Exchange (the “Lifeco3-Lifeco5 Transferred Stock”), none of that stock will be “section 306 stock” within the meaning of section 306(c).
- C. Any debt relating to the Lifeco3-Lifeco5 Transferred Stock that will be assumed in the First Exchange (or to which the Lifeco3-Lifeco5 Transferred Stock is subject) was incurred to acquire the Lifeco3-Lifeco5 Transferred Stock and was incurred when the Lifeco3-Lifeco5 Transferred Stock was acquired, and Lifeco3 will transfer all of the stock for which the acquisition indebtedness that will be assumed (or to which such stock is subject) was incurred.
- D. The First Exchange is not the result of solicitation by a promoter, a broker, or an investment house.
- E. Lifeco3 will not retain any rights in the property that will be transferred in the First Exchange.
- F. The value of the Lifeco5 stock received in exchange for any accounts receivable will be equal to the net value of the accounts receivable transferred, *i.e.*, the face amount of the accounts receivable previously included in income less the amount of any reserve for bad debts.
- G. The First Exchange Liabilities were incurred in the ordinary course of business and are associated with the First Exchange Assets.
- H. The total fair market value of the First Exchange Assets will be equal to or exceed the sum of the First Exchange Liabilities to be assumed by Lifeco5 (within the meaning of section 357(d)). For purposes of this representation, Taxpayer will treat: (i) a derivative contract that is “in the money” as of the date of its transfer as an asset for federal income tax purposes to the extent that it is in the money as of that date; (ii) a derivative contract that is “out of the money” as of the date of its transfer as a liability for federal income tax purposes to the extent that it is out of the money as of that date; and (iii) a derivative contract that is “at the money” as of the date of its transfer as neither an asset nor as a liability for federal income tax purposes.
- I. Taking into account the rule of section 357(c)(3)(A), the total adjusted basis of the First Exchange Assets will be equal to or exceed the sum of the First Exchange Liabilities to be assumed by Lifeco5 (within the meaning of section 357(d)). For purposes of this representation, Taxpayer is including in the total adjusted basis of the



First Exchange Assets the unamortized policy acquisition expenses associated with the XPolicies that Lifeco3 transfers to Lifeco5 in the ARTransaction1. Also for purposes of this representation, Taxpayer is treating as a liability described in section 357(c)(3)(A) a derivative contract for which the present value of the payments that are anticipated to be received from the counterparty to the derivative contract is less than the present value of the payments that are anticipated to be made to the counterparty to the derivative contract.

J. There is no indebtedness between Lifeco3 and Lifeco5 (other than payables arising in the ordinary course of business under an existing tax sharing agreement and similar intercompany agreements), and there will be no indebtedness created in favor of Lifeco3 as a result of the First Exchange.

K. The series of proposed transactions that will comprise the First Exchange will occur under a plan agreed upon before the transactions in which the rights of the parties are defined.

L. To the extent possible, the series of proposed transactions that will comprise the First Exchange will occur on the dates described.

M. There is no plan or intention on the part of Lifeco5 to redeem or reacquire any of the stock that will be issued in the First Exchange.

N. Taking into account (i) any issuance of additional shares of Lifeco5; (ii) any issuance of stock for services; (iii) the exercise of any stock rights, warrants, or subscriptions of Lifeco5; (iv) any public offerings of the stock of Lifeco5; (v) any sales, exchanges, transfers by gift, or other dispositions of any of the stock of Lifeco5 received in the First Exchange; and (vi) Treas. Reg. § 1.1502-34, Lifeco3 will be in “control” of Lifeco5 within the meaning of section 368(c).

O. Lifeco3 will receive stock of Lifeco5 approximately equal to the net fair market value of the property transferred to Lifeco5.

P. Lifeco5 will remain in existence and will retain and use the property that will be transferred to it in the First Exchange in its trade or business.

Q. Lifeco5 has no plan or intention to dispose of the property that will be transferred to it in the First Exchange other than in the ordinary course of its business operations.

R. Each of the parties to the First Exchange will pay its own expenses, if any, incurred in connection with that proposed transaction.

S. Lifeco5 will not be an “investment company” within the meaning of section 351(e) and Treas. Reg. § 1.351-1(c)(1).

T. Lifeco3 is not under the jurisdiction of a court in a Title 11 or similar case (within the meaning of section 368(a)(3)(A)), and the stock received by Lifeco3 in the First Exchange will not be used to satisfy Lifeco3's indebtedness.

U. Lifeco5 will not be a "personal service corporation" within the meaning of section 269A.

Taxpayer also makes the following representations with respect to the Second Exchange:

V. No stock or securities will be issued by Lifeco2 for services rendered to or for the benefit of Lifeco2 in connection with the Second Exchange, and no stock or securities will be issued by Lifeco2 for indebtedness of Lifeco2 that is not evidenced by a security or for interest on indebtedness of Lifeco2 that accrued on or after the beginning of the holding period of Lifeco1 with respect to the debt.

W. If any stock is transferred in the Second Exchange (the "Lifeco1-Lifeco2 Transferred Stock"), none of that stock will be "section 306 stock" within the meaning of section 306(c).

X. Any debt relating to the Lifeco1-Lifeco2 Transferred Stock that will be assumed in the Second Exchange (or to which the Lifeco1-Lifeco2 Transferred Stock is subject) was incurred to acquire the Lifeco1-Lifeco2 Transferred Stock and was incurred when the Lifeco1-Lifeco2 Transferred Stock was acquired, and Lifeco1 will transfer all of the stock for which the acquisition indebtedness that will be assumed (or to which such stock is subject) was incurred.

Y. The Second Exchange is not the result of solicitation by a promoter, a broker, or an investment house.

Z. Lifeco1 will not retain any rights in the property that will be transferred in the Second Exchange.

AA. The value of the stock actually and constructively received in exchange for any accounts receivable will be equal to the net value of the accounts receivable transferred, i.e., the face amount of the accounts receivable previously included in income less the amount of any reserve for bad debts.

BB. The Second Exchange Liabilities were incurred in the ordinary course of business and are associated with the Second Exchange Assets.

CC. The total fair market value of the Second Exchange Assets will be equal to or exceed the sum of the Second Exchange Liabilities to be assumed by Lifeco2 (within the meaning of section 357(d)). For purposes of this representation, Taxpayer will treat: (i) a derivative contract that is "in the money" as of the date of its transfer as an asset for

federal income tax purposes to the extent that it is in the money as of that date; (ii) a derivative contract that is “out of the money” as of the date of its transfer as a liability for federal income tax purposes to the extent that it is out of the money as of that date; and (iii) a derivative contract that is “at the money” as of the date of its transfer as neither an asset nor as a liability for federal income tax purposes.

DD. Taking into account the rule of section 357(c)(3)(A), the total adjusted basis of the Second Exchange Assets will be equal to or exceed the sum of the Second Exchange Liabilities to be assumed by Lifeco2 (within the meaning of section 357(d)). For purposes of this representation, Taxpayer is including in the total adjusted basis of the Second Exchange Assets the unamortized policy acquisition expenses associated with the YBusiness that Lifeco1 transfers to Lifeco2 in the ARTransaction2. Also for purposes of this representation, Taxpayer is treating as a liability described in section 357(c)(3)(A) a derivative contract for which the present value of the payments that are anticipated to be received from the counterparty to the derivative contract is less than the present value of the payments that are anticipated to be made to the counterparty to the derivative contract.

EE. There is no indebtedness between Lifeco1 and Lifeco2 (other than (i) payables arising in the ordinary course of business under an existing tax sharing agreement and similar intercompany agreements and (ii) the liquidity pool arrangements that exist between Lifeco1 and Lifeco2) and, other than the Excess Lifeco2 Receivable, there will be no indebtedness created in favor of Lifeco1 as a result of the Second Exchange.

FF. The series of proposed transactions that will comprise the Second Exchange will occur under a plan agreed upon before the transactions in which the rights of the parties are defined.

GG. To the extent possible, the series of proposed transactions that will comprise the Second Exchange will occur on the dates described.

HH. There is no plan or intention on the part of Lifeco2 to redeem or reacquire any of the stock or indebtedness that will be issued in the Second Exchange.

II. Taking into account (i) any issuance of additional shares of Lifeco2; (ii) any issuance of stock for services; (iii) the exercise of any stock rights, warrants, or subscriptions of Lifeco2; (iv) any public offerings of the stock of Lifeco2; and (v) any sales, exchanges, transfers by gift, or other dispositions of any of the stock of Lifeco2 received in the Second Exchange, Lifeco1 will be in “control” of Lifeco2 within the meaning of section 368(c).

JJ. Taking into account the Excess Lifeco2 Receivable, Lifeco1 will receive actual and constructive stock of Lifeco2 approximately equal to the net fair market value of the property transferred to Lifeco2.

KK. Lifeco2 will remain in existence and will retain and use the property that will be transferred to it in the Second Exchange in its trade or business.

LL. Lifeco2 has no plan or intention to dispose of the property that will be transferred to it in the Second Exchange other than in the ordinary course of its business operations.

MM. Each of the parties to the Second Exchange will pay its own expenses, if any, incurred in connection with that proposed transaction.

NN. Lifeco2 will not be an “investment company” within the meaning of section 351(e) and Treas. Reg. § 1.351-1(c)(1).

OO. Lifeco1 is not under the jurisdiction of a court in a Title 11 or similar case (within the meaning of section 368(a)(3)(A)), and the stock received by Lifeco1 in the Second Exchange will not be used to satisfy Lifeco1’s indebtedness.

PP. Lifeco2 will not be a “personal service corporation” within the meaning of section 269A.

QQ. Each of Lifeco1, Lifeco2, Lifeco3, Lifeco4, Lifeco5, and Lifeco6 is a “life insurance company” within the meaning of section 816(a).

## RULINGS

### The First Exchange:

1. The transfer by Lifeco3 to Lifeco5 of the First Exchange Assets in exchange for stock of Lifeco5 and Lifeco5’s assumptions of the First Exchange Liabilities in the First Exchange will qualify as a transaction described in section 351. Section 351; §1.1502-34; Rev. Rul. 94-45, 1994-2 C.B. 39.

2. No gain or loss will be recognized by Lifeco3 in the First Exchange, except that any gain on the transfer of a market discount bond in the First Exchange, to the extent the gain does not exceed the accrued market discount on that bond as of the date of the First Exchange, will be recognized by Lifeco3 as ordinary income as of the date of the First Exchange. Sections 351, 357 and 1276(a); Rev. Rul. 94-45, supra.

3. No gain or loss will be recognized by Lifeco5 on the receipt of money or other property in exchange for Lifeco5 stock in the First Exchange. Section 1032(a).

4. The basis of the stock of Lifeco5 received by Lifeco3 in the First Exchange will be the same as the First Exchange Assets exchanged therefor, decreased by the amount of liabilities not described in section 357(c)(3) that are assumed by Lifeco5, and increased by the amount of any gain recognized by Lifeco3 plus the amount of any

unamortized policy acquisition expenses associated with the XPolicies that Lifeco3 transfers to Lifeco5 in the ARTransaction1. Sections 358(a)(1) and (d); Rev. Rul. 94-45, supra.

5. The holding period for the stock of Lifeco5 received by Lifeco3 in the First Exchange will include the holding periods during which Lifeco3 held the First Exchange Assets, provided that the First Exchange Assets were capital assets or were property described in section 1231. Section 1223(1); Rev. Rul. 85-164, 1985-2 C.B. 117.

6. The bases of the First Exchange Assets in the hands of Lifeco5 will equal the bases of those assets in the hands of Lifeco3 immediately before their transfer to Lifeco5, increased by the amount of any gain recognized by Lifeco3 in the First Exchange. Section 362(a)(1).

7. The holding periods of the First Exchange Assets in the hands of Lifeco5 will be the same as the holding periods of those assets in the hands of Lifeco3 immediately before the First Exchange. Sections 1223(2).

8. After the First Exchange, Lifeco5 will determine the amount of accrued market discount with respect to any market discount bond transferred by Lifeco3 to Lifeco5 in the First Exchange as if Lifeco5 acquired the bond on the date it was acquired by Lifeco3 for an amount equal to Lifeco3's basis in the bond. Adjustments to the basis shall be made for gain recognized by Lifeco3 in the First Exchange (and for any original issue discount or market discount included in the gross income of Lifeco3). Section 1276(c)(1).

#### The Second Exchange:

8. The transfer by Lifeco1 to Lifeco2 of the Second Exchange Assets in exchange for actual and constructive stock of Lifeco2, the YReceivable and Lifeco2's assumption of the Second Exchange Liabilities in the Second Exchange will qualify as a transaction described in section 351. Section 351; Rev. Rul. 94-45, supra.

9. No gain or loss will be recognized by Lifeco1 in the Second Exchange, except that (i) gain will be recognized to the extent of the fair market value of the YReceivable and (ii) any gain on the transfer of a market discount bond in the Second Exchange, to the extent the gain does not exceed the accrued market discount on that bond as of the date of the Exchange, will be recognized by Lifeco1 as ordinary income as of the date of the Exchange. Sections 351, 357 and 1276(a); Rev. Rul. 94-45, supra. In determining the amount of any gain recognized under (i), the fair market value of the YReceivable shall be separately allocated to the Second Exchange Assets in proportion to their relative fair market values. Rev. Rul. 68-55, 1968-1 C.B. 140.

10. No gain or loss will be recognized by Lifeco2 on the receipt of money or other property in exchange or constructive exchange for Lifeco2 stock in the Second Exchange. Section 1032(a).

11. The bases of the Second Exchange Assets in the hands of Lifeco2 will equal the bases of those assets in the hands of Lifeco1 immediately before their transfer to Lifeco2, increased by the amount of any gain recognized by Lifeco1 in the Second Exchange. Section 362(a)(1).

12. The holding periods of the Second Exchange Assets in the hands of Lifeco2 will be the same as the holding periods of those assets in the hands of Lifeco1 immediately before the Second Exchange. Section 1223(2).

13. After the Second Exchange, Lifeco2 will determine the amount of accrued market discount with respect to any market discount bond transferred by Lifeco1 to Lifeco2 in the Second Exchange as if Lifeco2 acquired the bond on the date it was acquired by Lifeco1 for an amount equal to Lifeco1's basis in the bond. Adjustments to the basis shall be made for gain recognized by Lifeco1 in the Second Exchange (and for any original issue discount or market discount included in the gross income of Lifeco1). Section 1276(c)(1).

#### Miscellaneous:

14. For purposes of applying §1.1502-47(d)(12)(viii)(C) to a life insurance company, the term “premiums” means (i) the “gross amount of premiums and other consideration” (as defined in section 803(b)(1)), including any negative modco reserve adjustments, less (ii) the sum of (a) any return premiums, including any experience refunds, positive modco reserve adjustments, and policyholder dividends or reimbursements of any policyholder dividends (in each case attributable to any indemnity reinsurance) and (b) any consideration payable pursuant to any indemnity reinsurance agreement. A “negative modco reserve adjustment” is an amount owed to the life insurance company by another insurance company, and a “positive modco reserve adjustment” is an amount owed by the life insurance company to another insurance company, in either case as a modco reserve adjustment pursuant to a modco reinsurance arrangement between the two insurance companies for this purpose.

15. For purposes of applying Treas. Reg. § 1.1502-47(d)(12)(viii)(C) to Lifeco5 and Lifeco2, the reference to “premiums generated during the last taxable year of the base period which are attributable to special acquisitions” will not include the premiums that each company receives as consideration for entering into the CITransaction1 (in the case of Lifeco5) and the CITransaction2 and the RTransaction (in the case of Lifeco2).

#### CAVEATS

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In particular, no opinion is expressed regarding (i) whether the amount of any consideration or premium transferred in any transaction is an "arm's length" amount, and (ii) whether any derivative is described in section 357(c)(3)(A).

#### PROCEDURAL STATEMENTS

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

*T. Ian Russell*

T. Ian Russell  
Senior Counsel, Branch 5  
Office of Chief Counsel  
(Corporate)

cc: